

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 7253

BILL NUMBER: HB 1196

DATE PREPARED: Jan 12, 2002

BILL AMENDED:

SUBJECT: Property Tax and Budget Matters.

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FUNDS AFFECTED: X

X

**GENERAL
DEDICATED
FEDERAL**

IMPACT: State & Local

Summary of Legislation: This bill makes various amendments for consistency with the change of assessed value to 100% of true tax value. It provides that certain cumulative fund rate adjustments apply for only one year after a general reassessment. The bill makes certain amendments with respect to excessive levy appeals. If a political subdivision does not fix the budget, tax rate, and tax levy for the ensuing budget year, this bill provides that the most recent annual budget and tax levy are continued for the ensuing budget year. The bill also eliminates the requirement for a township trustee to advertise a poor relief tax rate.

With respect to bonds and leases: this bill (1) permits an objection petition to the Department of Local Government Finance only if a local objection petition was filed; (2) applies certain provisions for objection only if the project cost is more than \$2,000,000; and (3) requires a school corporation to disclose expected new facility operating costs and whether a levy appeal will be made to pay those costs. This bill also updates population parameters to reflect changes in the 2000 decennial Census.

Effective Date: Upon passage; January 1, 2002 (retroactive); July 1, 2002.

Explanation of State Expenditures: Solid Waste Districts: The state's expense for property tax replacement credits (PTRC) could be increased under this bill. Based on the possible additional levies estimated below, the state could have an additional PTRC liability of \$109,000 (20% of \$545,129) per year beginning in CY 2003. Homestead credits could also increase under this provision by about \$24,000 in CY 2003 and \$10,000 in CY 2004 and later. PTRC and homestead credit are paid from the Property Tax Replacement Fund which is annually supplemented by the state General Fund. Any additional PTRF expenditures would ultimately come from the General Fund.

Cumulative Fund Rates: The additional levy authority discussed below in *Explanation of Local Revenues* could obligate the state for up to \$2.2 M annually in additional homestead credits beginning in CY 2004.

Explanation of State Revenues: Local Budget Appeals: Under current law, a minimum of ten taxpayers may object to a budget, tax rate, or tax levy by filing the objection with the taxing unit within seven days of the unit's hearing to set the budget, rate and levy. A minimum of ten taxpayers may also object to a county tax adjustment board's action on a unit's budget by filing the objection with the county auditor unit within ten days of publication of the county auditor's notice of the tax rates to be charged. This objection is considered by the Department of Local Government Finance (State Tax Board). According to this bill, if a local appeal was filed and the local unit made no change to the budget, then an objection could only be made to the state if at least 75% of the original objectors also sign the second petition. This provision could reduce the number of budget objections that are forwarded to the Department of Local Government Finance.

Explanation of Local Expenditures:

Poor Relief Tax Rate: Under current law, in addition to budgets and proposed levies, each of Indiana's 1,008 township trustees must advertise an estimate of the township relief tax rate. Under this proposal, townships would no longer be required to advertise tax rates.

Controlled Projects: Under current law, a project that includes *the issuance of public debt* of \$2 M or more by a local governmental unit or school corporation is a controlled project. According to the bill, any project with a *total cost* of \$2 M or more would be a controlled project. This provision would classify an unknown number of additional projects as controlled. Controlled projects are subject to the petition and remonstrance procedure. This provision could potentially allow for new projects with a total cost over \$2 M, regardless of the amount of debt issued, to either be stopped or delayed by the property owners or to be pared down. This measure could translate into a reduction in construction spending.

New Facilities: Under current law, local civil units and school corporations that wish to impose a new debt service or lease/rental levy must publish a notice that includes various information about the debt. This bill would require school corporations that wish to open a new facility or reopen an old facility to also provide an estimate of the annual operating cost of the facility and a statement as to whether the school corporation intends to seek an increase in its operating levy to cover those costs.

It is assumed that the operating costs are already being estimated by the taxing units in analyzing the project proposals. Since the units are already providing notices of the public meetings on the projects, the operating costs could be included in those notices at little or no additional charge.

The notice of projected operating costs under this proposal would provide the public with information about the long term cost of a project. If the information available to taxpayers is enhanced by this bill, then the scope of future projects could be affected.

Explanation of Local Revenues:

Local Budgets: Under the bill, a taxing unit's previous budget and tax levy would be continued if the unit fails to adopt a budget, tax rate, and tax levy for the following year. This provision would ensure continued funding at previous year levels if the unit does not adopt budgets and tax rates in a timely manner.

Solid Waste Districts: Under current law, solid waste management districts are subject to both a maximum permissible levy and a maximum rate of \$0.25 per \$100 of assessed value. Because of a change in the definition of assessed value that will take effect with the 2001 payable 2002 tax year, the current \$0.25 maximum tax rate will be equal to \$0.0833 in 2002. These scheduled changes do not affect tax levies or tax

bills in any way. However, for clarity, tax rates in this estimate will be expressed in 2000 terms.

This bill would permit a solid waste management district to appeal to the Department of Local Government Finance for permission to exceed the maximum tax rate beginning in 2003 if the district imposes the maximum rate in 2002, but generates a levy that is less than the maximum permissible levy. CY 2002 tax rates are not yet finalized, so this estimate is based on CY 2001 tax rates and levies.

In CY 2001 there was only one district, Lawrence County, that imposed the full \$0.25 tax rate. Two additional districts had rates approaching the maximum: Gibson County at \$0.2248 and Washington County at \$0.2300. The \$0.25 maximum tax rate is not enough to generate the maximum permissible levy for Gibson County or Lawrence County, but is enough to generate the maximum permissible levy for Washington County. Two other counties, Daviess County and Martin County, also have maximum permissible levies greater than that generated by the \$0.25 maximum rate. Daviess County currently has a \$0.0254 rate, while Martin County has a \$0.1365 rate, which provides room for a ten-fold expansion in the tax levy for Daviess and a two-fold expansion for Martin, suggesting that these counties are unlikely to make use of this provision in the immediate future.

The following estimate assumes that districts with 2001 tax rates at or approaching the \$0.25 rate limit and a maximum permissible levy greater than that possible under the \$0.25 tax rate limit will impose the maximum rate in 2002, and that those districts would take full advantage of the additional levy authority under this bill. The actual fiscal impact of this bill depends on local action.

Solid Waste District	2001 Tax Rate	Additional Possible Levy Under Proposal	Additional Possible Tax Rate Under Proposal
Gibson County	\$0.2248	\$84,396	\$0.0236
Lawrence County	\$0.2500	\$460,733	\$0.1728
Total		\$545,129	

Cumulative Fund Rates: Currently, local civil unit cumulative funds and school capital projects funds (CPF) have statutory maximum tax rates. These rates are permanently adjusted under current law each time there is a general reassessment in order to negate the effects of the reassessment. Under this proposal, the adjustment would be valid only in the year that reassessment first takes effect. After the initial year, the maximum rate would return to the statutory rate. If the taxing units choose to increase their cumulative fund tax and CPF rates under this proposal, then the property tax levy would increase.

Cumulative fund and CPF rates were adjusted in 1996 when the last reassessment took effect. Under current law, they would be adjusted again in 2003 when the next reassessment takes effect. This proposal would provide an estimated additional levy authority in CY 2004 and years following of \$124.3 M. About \$77.0 M of this amount are attributable to school capital projects funds, and the remaining \$47.4 M are attributable to the various civil taxing unit cumulative funds. The fiscal impact depends on the extent to which all of the civil units and school corporations take advantage of their additional levy authority.

State Agencies Affected: Department of Local Government Finance (State Tax Board).

Local Agencies Affected: Local civil taxing units and school corporations; Township trustees.

Information Sources: Local Government Database.